2/88 R5650-2

JAPAN · ECONOMIC · INSTITUTE

JEI

REPORT

NO. 2A January 15, 1988

JAPAN'S LABOR UNIONS WORK TO MEET NEW CHALLENGES

Summary

Japan's workforce and labor unions are facing the twin challenges of economic evolution and a strong yen, and like American labor in the early 1980s, could emerge from the ordeal significantly transformed. The changing economic, social and demographic situation demands creative responses from government, industry and labor leaders -- responses that are now being debated. As in the past, the Japanese will evaluate traditional labor practices, keeping or amending some while discarding others.

The Japanese Tradition

Japanese employment practices reflect the dual nature of the business sector. At the top, employees of big companies enjoy a lifetime employment system that offers security and steady advancement in exchange for near-absolute loyalty. Workers in small firms, on the other hand, face hiring and firing conditions similar to American practices. When times are tough, workers often bear the brunt of the adjustment.

The lifetime employment system was developed by large firms during the high-growth reconstruction era in response to the shortage of skilled labor. Companies hired fresh college graduates at relatively modest wages and invested a great deal in training them, knowing they were unlikely to leave the company both because their specialized skills would not transfer easily and because mid-career hiring was extremely rare. Employees had numerous incentives to support the system: advancement depended on senority; promotions were practically assured regardless of performance; and a wide range of nonmonetary benefits accrued to loyal employees.

Small firms try to compensate for the lack of employment guarantees by treating their employees as a family. A willingness to provide nonmonetary benefits or additional money in times of personal need develops significant worker loyalty. While many American firms also follow this practice, it has a greater impact in Japan because group interactions play a central role in society. An interest in the employee's personal affairs is accepted as genuine concern in Japan, while it might be considered an invasion of privacy in this country.

Japanese labor unions have evolved from their American origins into unique creatures. Unlike the United States where industry-wide unions are common, unions are specific to one enterprise in Japan. Since the union's welfare is so intimately linked with the success of the company and not the entire industry, it is not surprising that close cooperation between union and management characterizes Japanese labor relations. These enterprise unions, however, often belong to a federation that covers one or more industries. The federations coordinate activities in cases where unity is necessary to achieve the unions' goals; they rarely direct the member unions. They are primarily active in wage negotiations and politics.

Enterprise unions negotiate annually with management on all non-wage areas, including working conditions, fringe benefits and company strategy. This allows each union to tailor its demands to specific situations. While this system is more flexible than the American method, it can also result in great variations in employment conditions among companies within the same industry.

Since 1955 enterprise unions and federations have pooled their resources in the annual nationwide spring wage negotiations known as shunto. Spring is the chosen season for three reasons: companies begin the process of hiring college graduates and must establish uniform entry-level wages for all categories of workers; many firms begin their business year in the spring, making it a natural time to adjust salaries; and since the Diet is usually debating fiscal policy for the coming year, labor tries to leverage its unity on wages for political advantage. Until 1981 each industry set its own wage demands based on that sector's economic prospects. Since then, however, the unions have promulgated uniform wage demands to reflect the overall economic situation, although a few industries have always set the pace. From 1962 until just recently, unions representing steel, electrical machinery, automotive and shipbuilding workers set the standard. Because of the difficulties facing the steel and shipbuilding sectors, the mantle of leadership has been passed to employees in the nonelectric machinery (including computers and consumer electronics), telecommunications and transportation industries.

Opposing the unions' stance is management's arm, the Japan Federation of Employers' Associations, or Nikkeiren. In response to the unions' initial proposal issued in December or January, Nikkeiren issues its report on the economic situation, including a counterproposal. Political maneuvering continues through March, real bargaining begins in April and settlements are concluded by the end of May.

The JEI REPORT (ISSN 0744-6489) is published weekly except for the New Year, Memorial Day, Labor Day, Thanksgiving and Christmas holiday weeks for $40 per year by the Japan Economic Institute of America, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036. Second class postage paid at Washington, D.C. POSTMASTERS: Send address changes to JEI REPORT, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036.

Between the mid-1950s and the 1973 oil shock, the labor movement was usually politically quiescent. In response to the turmoil of the 1970s, however, the unions turned to politics to influence fiscal policy. Not surprisingly, their support went to the Socialist and Communist parties. The fact that the Liberal Democratic Party has been in power for more than three decades and is closely tied to business interests testifies to labor's weak political muscle. The challenges of the late 1980s threaten a more general enfeeblement of the labor movement.

The Challenges

A broad range of economic and social forces are buffeting Japan's workers and unions. In one sense, laborers are victims of their own success: hard work and close cooperation with management have pushed the economy rapidly through the reconstruction and into the post-industrial phase of development. In addition the highly competitive export machine Japan built now threatens to overload the global trading system and must be restructured. Economic maturity has created new pressures for social change as well, all of which will force labor to mend its traditional ways.

Shift to a post-industrial economy - Until the 1980s manufacturing's share of gross national product in real terms had been gradually declining while the service sector's share was rising. The export boom of 1980-85 temporarily reversed the shift toward a post-industrial economy, although the tertiary or service sector still accounted for nearly half of gross domestic product. Growth in the consumer and financial service areas is expected to easily outstrip manufacturing's performance in the coming decades, forcing labor to move from one sector to the other. This sectoral shift is already quite clear: while approximately 800,000 jobs were created in the manufacturing sector between 1980 and 1986, over 3.2 million workers entered non-manufacturing, non-agricultural positions (see Table 1). The shift presents a problem to workers in general and labor unions in particular.

Job skill requirements are obviously quite different in the manufacturing and service sectors. For workers in declining industries, retraining is a central issue. Not only is the availability of this training in question, but the worker's ability to fit into another slot is also a concern. Fishermen, for example, who are eligible to take advantage of government training programs are often unable or unwilling to enter a new profession. Although manufacturing workers are generally better educated, their willingness to discard old skills is also unclear.

The shift has struck particularly hard at areas that have traditionally been centers of union strength -- such as steel, shipbuilding and electrical machinery industries. Nippon Steel Corp.'s decision to close several facilities and cut its workforce significantly shattered the complacent attitude of many workers. Conversely, many service industries are generally non-unionized or present difficult organizational tasks -- for example the high-paying positions in financial services. The end result has been an erosion of union membership (see Table 2) and a scramble by leadership to reverse the trend.

Table 1: Distribution of Japan's Labor Force

(thousands of workers)

	1965	1970	1975	1980	1981	1982	1983	1984	1985	1986
Agriculture and Forestry	11,126	9,540	6,879	5,320	5,100	5,020	4,850	4,680	4,640	4,500
Fisheries	616	535	475	450	470	460	460	440	450	450
Mining	332	216	132	110	100	100	100	80	90	80
Construction	3,058	3,929	4,729	5,840	5,440	5,410	5,410	5,270	5,300	5,340
Manufacturing	11,511	13,682	13,236	13,670	13,850	13,800	14,060	14,380	14,530	14,440
Utilities	266	287	321	300	310	340	360	350	330	320
Transportation and Communications	2,843	3,214	3,365	3,500	3,440	3,490	3,500	3,410	3,430	3,530
Wholesale and Retail Trade	8,565	10,060	11,381	12,480	12,740	12,960	13,130	13,190	13,180	13,390
Finance, Real Estate and Insurance	1,164	1,377	1,755	1,910	2,000	2,060	2,130	2,160	2,170	2,225
Services	6,666	7,635	8,741	10,010	10,300	10,650	11,220	11,540	11,730	12,050
Government	1,456	1,720	1,595	1,990	1,940	1,950	1,950	1,950	1,990	1,970
Total	47,603	52,195	52,609	55,580	55,690	56,240	57,170	57,450	57,840	58,295

Source: Management and Coordination Agency

Table 2: Union Membership and Unionization Rate

(thousands of workers)

	Membership	Change Over Previous Year	Share of Total Labor
1965	10,147	3.5%	34.8%
1970	11,605	3.2	35.4
1975	12,590	-0.6	33.7
1980	12,369	0.5	30.8
1981	12,471	0.8	30.8
1982	12,526	0.4	30.5
1983	12,520	-0.0	39.7
1984	12,464	-0.4	29.1
1985	12,418	-0.4	28.9

Source: Ministry of Labor

An equally serious challenge is posed by the moderate economic growth characteristic of post-industrial development. High growth in the 1960s provided ample employment and promotion opportunities for all. Slower growth in the following decade still supported a promotion system based more on seniority than performance. Since 1980, however, the economic situation has put great pressure on the seniority system; cracks in the system are already becoming wider.

The most visible is the increasing number of mid-career job changes. Although the numbers are still very small compared to the United States (see Table 3), job mobility is on the rise, as indicated by the growing respectability of executive search firms. In fact, pressure for change is coming from both sides. Companies interested in paring employment but loathe to fire anyone have made job placement services available to their employees. Middle-aged workers with little chance of being assigned a job with real responsibility in the face of slower growth are opting for the challenge of a career change.

The high yen and economic restructuring - Accelerating the shift, the strong yen is forcing manufacturing companies to adopt new business strategies that include transfering or eliminating excess workers, moving production abroad, diversifying into new areas, forcing subcontractors to lower prices (read improve their efficiency), resisting wage increases even more fiercely, and using more part-time workers. Each of these presents workers and unions with a difficult choice -- whether to place the health of the company ahead of the interests of the individual workers.

Foreign investment and diversification are perhaps the trickiest issues. The first is acceptable to the unions as long as no domestic jobs are lost. Management, however, can often find its options closed. Nissan Motor Co., Ltd., for example, hoped to expand its manufacturing operations in Great Britain, but had to postpone this move when the Japanese union protested. Foreign manufacturing is even more important in view of the high yen, but unions are fighting to keep as much value-added in Japan as possible. Diversification is even trickier. Workers at Nippon Steel and the Japan Railways

group (the ex-Japanese National Railways) are finding it difficult to adjust to new jobs. Equally important, unions are having difficulty juggling the concerns of workers in the new subsidiaries with those of the old-line employees.

Table 3: Labor Turnover Ratio

	Separation Rate	Retirement Rate
1980	1.60%	1.10%
1981	1.60	1.00
1982	1.60	1.00
1983	1.60	1.00
1984	1.60	1.00
1985	1.60	1.00
1986	1.62	1.05
1987		
January	1.53	1.14
February	1.49	0.96
March	2.05	1.33
April	3.11	1.78
May	1.61	1.04
June	1.30	0.84
July	1.40	0.91
August	1.30	0.84
September	1.27	0.93
October	1.44	0.91

Source: Ministry of Labor

On the other hand the switch to domestic demand-oriented industries is creating new employment opportunities. The construction boom has brought new orders for inputs from related industries, as has the jump in public works projects. Even here, however, workers face the challenge of rapidly developing appropriate job skills.

Demographic changes - Japan's postwar baby boomers are now in the 30-to-40-year-old age group, enjoying the prime of life and forming a solid tax base for government social programs. By the turn of the century, however, this demographic bulge will be nearing retirement age. With a low birth rate (11.4 per thousand in 1986 versus 15.7 for the United States), not only will the tax base shrink but the need for government spending will increase. (Any decline in education outlays will be outweighed by increases in social security and medical programs.) Ad hoc solutions are appearing, most of which focus on putting retirees back to work.

One trend that has disturbed many Japanese is the increasing presence of illegal foreign workers. "Tourists" from South and Southeast Asia are taking low-level jobs in increasing numbers. The situation is similar to the American use of immigrant workers to harvest many agricultural crops. The wages may be low from a domestic worker's viewpoint, but they are well above what the foreign worker could earn at home. There are some signs that Tokyo may be reconsidering its adamant stand against foreign guest workers with an eye toward the

coming labor shortage. The greying of Japan poses thorny problems for policy-makers in Tokyo (see JEI Report No. 12A, March 27, 1987), but any solution will fail without the input and cooperation of workers and unions.

Changing social values - Although an American-style women's liberation movement stands little chance of taking root in Japan, the role of women in society is undergoing steady change. While they continue to form the bulk of the part-time workforce, women are also increasing their presence in the corporate mainstream. Thanks to a 1985 equal employment opportunity law, the government and many private firms have adopted policies to insure that women are represented more equally in hiring and promotion activities. On the other side of the coin, society is gradually accepting female business executives as a valid role model alongside the traditional housewife. Unions must respond to this change, which represents an opportunity to increase their membership.

Japan has developed an international reputation as a nation of frugal workaholics. Thanks to the yen's appreciation, per-capita income could approach the U.S. level in 1988. With the rise, however, more and more Japanese are asking why housing and social infrastructure (parks, roads, recreation facilities) standards are low compared with other developed nations. As part of its campaign to increase domestic demand, Tokyo is raising investment in public works and is encouraging people to enjoy themselves more by gradually moving the nation toward a 40-hour work week. (The average Japanese put in 46.7 hours in 1986.) This attitude revolution could have a significant long-term impact on labor productivity.

An adjunct to this trend is the increasing value put on more intimate and active family relations. This surfaces not only in increasing resistance to heavy overtime, but also in a reluctance to accept a job away from the family. A willingness to move has always served as one indication of company loyalty and in many cases is a necessary step up the corporate ladder. According to Labor Ministry surveys, however, as many as one-third of the working male population now disapprove of the practice. Some employees have even filed lawsuits claiming they suffered because they refused to move at the company's orders.

Liberalization, deregulation and privatization - Tokyo's drive to open goods and services markets to greater foreign participation is another dual-edged sword labor unions must handle. On one hand, foreign firms create new employment opportunities; on the other, they can disrupt traditional business and labor practices. Foreign firms have been a major force behind increasing job mobility. Financial firms in particular have been raided by foreign companies striving to quickly create a major presence in Japan. The surge in foreign investment in research and development facilities offers tempting opportunities for experienced scientists. The National Land Agency estimates that foreign firms will employ an estimated 60,000 more people by the end of this century, including many experienced workers. Tougher international competition may also lead to a long-term decline of some industries, but this will surely be balanced by the growth of others.

Deregulation and privatization have sparked solid growth in the financial and telecommunications industries at the expense of disrupting existing patterns of unionization and power. This in itself is not necessarily bad for

workers and labor unions, since new unions form and the balance of power between management and labor is maintained. It does, however, force unions and laborers to make adjustments that are sometimes painful but always wrenching.

The chaos that ensued when the Japanese National Railways was privatized is a perfect example. The five unions that represented employees when JNR was a government-owned company disintegrated in the face of stringent demands by the new private managers. Strikes and even sabotage marked the difficult adjustment period. While unions and workers can attempt to influence government policies, most of these forces are beyond their control. The challenges are new to postwar Japanese -- they cannot be solved by simply working harder. In searching for solutions, the Japanese are examining the experiences of other countries. Not surprisingly, the American model heads the list.

The U.S. Experience

In the early 1980s this country faced the same problems: a post-industrial shift, a high dollar and an aggressive government program of deregulation. The adjustment toward an economy driven mainly by service sector growth was already well under way by the beginning of the decade. The strong dollar, however, forced management to make abrupt changes. Crash programs to cut costs spread through manufacturing and service firms alike, with the axe falling hardest on labor. Manufacturing based on well-established technologies or with relatively low value-added moved offshore whenever possible, again with dire consequences for employment.

Japanese observers were highly critical of the American adjustment process, arguing that the U.S. economy was "hollowing out" and that the international competitiveness of American manufacturers was suffering. By indiscriminately paring workers, companies were damaging their ability to expand when the economy rebounded, it was said. The worsening of the adversarial relationship between management and labor was also criticized as contributing to the adjustment difficulties. Unreasonable management and labor demands only made the necessary changes more abrupt and painful, Japanese observers charged. The government's hands-off attitude was also deplored. Instead of greasing the wheels of economic adjustment with new retraining programs, or providing relocation assistance, the Reagan administration let the market apportion the costs of adjustment. The social costs of the resulting high unemployment were simply unacceptable from the Japanese viewpoint.

Japanese labor unions also took close note of how the pendulum of public opinion and management policy had swung against their American counterparts. Beginning with President Reagan's strike-breaking action against the air traffic controllers' union, national sentiment turned decidedly anti-union. Organized labor's most potent weapon, the strike, lost its efficacy as the swelling ranks of unemployed formed a willing replacement pool that management unhesitatingly tapped. No longer able to win wage hikes or assure job security, U.S. unions saw their membership begin to decline. In sum, organized labor emerged from the adjustment process significantly weaker, a situation Japanese labor leaders are working to avoid.

The Unions Respond

The keystone of Japanese labor's strategy is to continue to work closely with management to smooth out the adjustment process. By wisely acknowledging

that they cannot stop the changes, unions stand a better chance of exerting a positive influence on business and government policies. This does not mean that labor will be led meekly to the gallows. For example, in response to a Nippon Steel diversification plan, the Nippon Steel Workers Unions (Tekko Roren) states that "the proposals for the temporary suspension of the extension of retirement age, long-term education and layoff of aged workers [are] unavoidable," although "it is an unfavorable compromise in view of the effects on the target workers and the details of past negotiations." The federation has issued a full critique of Nippon Steel's proposal, seeking even greater commitments from the company (see Appendix A).

The annual wage negotiations are also being framed to correspond to current realities. It has already been noted that wage leadership has been passed to the high-growth industries, service or manufacturing, in an effort to raise the average settlement. If the past two years are any example, however, the tactic will fail. Wage settlements have been linked even more tightly to each industry's individual situation without regard to other sectors or to the economy as a whole. In fact, labor has lost a great deal of face in the past several years for settling for only half the raise initially proposed. The pattern will apparently repeat itself this year. The General Federation of Private Railway Workers' Unions of Japan (Shitetsu Soren) has asked for a 9.8 percent hike, while the new Japanese Private Sector Trade Union Confederation (Rengo) has announced that it will seek an average 7 percent increase. Nikkeiren will take the same stance it did in 1987, arguing austerity is necessary and offering no increase above the normal seniority wage hike.

This time around the unions are more interested in job security than pay raises, especially in declining industries. Although this goal has been the foundation of labor relations, workers took it for granted until recently. But any guarantee will exact a stiff price in terms of management's power to internationalize production and diversify domestic operations.

Measures to reverse declining membership are also at the forefront of union discussions. In moving to expand their non-work-related activities to lure new members, Japanese unions are following the same pattern as American unions. Recreational, educational and health services are all likely components. It is not at all clear, however, if these will be sufficient. Traditional labor organizing activities will be pursued, of course, but their effectiveness in the service sector is questionable. Organizing part-time workers is another possibility, but the problems here are even greater. The unions must find other ways to attract members; a serious possibility would be even greater activity in the political arena.

The November 20, 1987 inauguration of the Japanese Private Sector Trade Union Confederation, or Rengo, was hailed as a milestone for organized labor in Japan, much as the creation of the AFL-CIO in the United States. It is the largest federation in Japan with 5.55 million members drawn from Domei (Japanese Confederation of Labor), 1.52 million; Sohyo (General Council of Trade Unions), 1.22 million; Churitsu Roren (Federation of Independent Unions), 1.21 million; Shinsanbetsu (National Federation of Industrial Organizations), 600,000; and unaffiliated unions, 1.54 million. It also represents the broadest number of industries, with members from 55 industrial unions, one observer union and six associate unions. Unionized government workers, however, are not

included at present. The Socialist party-oriented Sohyo, which does include government employees among its 3.1 million members, has voted to merge with Rengo by 1990, which would make the federation a formidable force.

At its initial meeting Rengo set several goals:

- To aim for a "Western standard of living and not just a Western level of wages." This obviously includes social and working conditions as well as wages.

- To form a "dynamic industrial society by strengthening the economic and industrial base and promoting smooth structural adjustment of the industries."

- "To realize a rich welfare society through our demands for overall policy and institutional changes, working closely with think-tanks and coordinating specific policies of our own."

- To expand by including all unions and by organizing new workers.

- To promote the international trade union movement by recognizing Japan's role and responsibility in international society. This includes participating in the International Confederation of Free Trade Unions, the International Labor Organization and the Organization for Economic Cooperation and Development-Trade Union Advisory Committee. Support for Japanese official development assistance also falls under this category.

- To promote national peace movements.

- To promote equality of the sexes in employment and other areas, and

- To strengthen the collaboration between the union and the political parties.

Despite all the fanfare, many doubt that Rengo will have a major impact on the labor or political scene any time soon. Unless it can develop creative solutions to a multitude of problems, membership will continue to languish. On the political front, only by broadening its links to include the LDP can it ever hope to exert significant leverage. In sum, simply becoming bigger does not necessarily mean better.

Conclusion

To American ears the problems dogging Japanese labor today have a familiar ring: American workers and unions have grappled with an exodus of manufacturing plants seeking cheaper labor, with the threat of layoffs, and with the difficulties of job retraining or relocation. On the other side of the Pacific, however, these are new and jarring melodies.

Japanese workers have several attributes that will aid them in meeting the challenge and give them an advantage over their U.S. counterparts. In the past devotion to the economic health of the nation has proved a powerful tool to muster public support for painful policies. While it is weakening slightly, the work ethic also remains a potent force in Japan. Both will insure that the Japanese will avidly work to fulfill whatever solution is devised.

The cooperative relationship between labor and management is another powerful weapon that is already being brought to bear on the tasks at hand. This is the sharpest difference between the U.S. and Japanese labor environments -- one that has been reinforced in Japan by the painful experiences of American workers and unions. The long-term, company-centered vision of labor unions gives management much greater flexibility to implement adjustment plans.

A well-educated workforce is Japan's final ace in the hole. Japanese workers have already proved that the school system has prepared them well to use sophisticated equipment and quality control procedures. A solid educational base will make retraining efforts easier and possibly more successful.

On the other hand, the basic conservative nature of Japanese society presents a major hurdle to the psychological changes that are necessary. The Japanese must find a way to preserve the positive aspects of traditional attitudes while adding new ones. Unfortunately economic changes will almost certainly outpace attitudinal adjustments, putting great pressure on the societal harmony so highly prized in Japan. The challenges facing labor are great, but so are the weapons to combat them.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.